With the compliments of

H. Nuttall
President

John Inglis Co. Limited
14 Strachan Avenue
Toronto 3, Canada

address by

HAROLD NUTTALL

president and chief executive officer

File

at the

ANNUAL MEETING

held on
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Inglis

JOHN INGLIS CO. LIMITED
Toronto, Canada

The President's Address

In this Canadian Centennial Year I think it would be of interest to give you a brief history and background of your Company.

Our origins go back over 100 years to 1859 when John Inglis and Thomas Mair, machinists of Dundas, Ontario, leased a foundry and water rights in the City of Guelph. Their early products comprised machinery for grist and flour mills, and later, boilers and reciprocating steam engines. In 1881 John Inglis acquired part of our present site at Strachan Avenue, Toronto, where the operation was relocated from Guelph and the business identified as John Inglis and Sons.

In 1903 the Company was incorporated in the name of The John Inglis Company Limited under William Inglis, one of the sons of John Inglis who had died just before the turn of the century. In appreciation of his services to the city the name William Inglis was given to the Toronto Island ferry boat which was built by your Company in 1935 and is still in service.

In the past century the Company has been through many changes and has turned out an intriguing variety of products from the early steam engines to large modern steam turbines, also water turbines which rank amongst the largest in physical size in the Western World. From shells in the first World War to Bren Guns and other automatic small arms in the second. The skills acquired in turning out these weapons to very fine tolerances on a repetitive basis have been put to very good use since the last war in manufacturing fuel pumps for oil fired furnaces.

Many of you know our more recent history. Heavy losses incurred in the early 1960's in the manufacture of heavy capital equipment resulted in the decision to phase out those activities, dispose of the relevant assets and concentrate on the manufacture of consumer products. At present these comprise home laundry appliances and dishwashers, domestic water heaters, and the fuel pumps referred to earlier. As mentioned in the Annual Report, to these next year will be added domestic refrigerators for which we have a new $5.5 million 250,000 sq. ft. plant under construction on an 80 acre site in Saltfleet Township near Hamilton 40 miles from Toronto, adjacent to the Queen Elizabeth Way. This site will not only have considerable prestige value but also has ample land to cater for all further expansion of manufacturing facilities in the Province of Ontario for the next ten years.

Our new plant at Saltfleet, we believe, will be the most modern of its type and size in North America in which, by heavy investment in plant and equipment, the operations will be mechanized to the optimum. In it we are also installing the vitreous enamelling plant, referred to in last year's Annual Report, which will not only support refrigerator manufacture but also our home laundry appliance operations at Strachan Avenue.

At our Strachan Avenue plant, which last year again set a new record output of consumer products with a sales value of $32.4 million, further steps are being taken to eliminate bottlenecks and rearrange assembly lines to increase output and efficiency.

So far as can be ascertained our 1966 net profit of $1,526,000 or $1.38 a share is the highest made by your Company in any year in at least the past 25 years. Further, as the Annual Report discloses, it was made after taking into account a net loss of $865,000 incurred by the equipment division. However the effect of that division's terminating activities is rapidly diminishing, and the Annual Report shows the potential of our consumer product operations once we are completely free of all liabilities incurred in our past manufacture of heavy equipment.

I should mention that the 1966 profit of nearly $2.4 million contributed by the consumer products division was made with this division bearing almost our entire general and administrative expenses which in previous years had been shared by the heavy equipment division. With the phasing out of the latter's activities these expenses have been reduced but naturally not proportionately. In fact there has been an offsetting increase by the setting up of an ultra-modern data processing center at Strachan Avenue with the purpose of keeping us in the vanguard of our field of manufacture. We have also incurred significant increases in expenses on fringe benefits to bring these up to the prevailing standards applying nowadays.

Sales of consumer products in 1966 of $32.4 million represented an increase of 16% on 1965, 40% on sales in 1963, and over the past five years an average compounded annual rate of growth of over 11%. We estimate this performance is well above the industry's average for our range of products. Most of this growth has come from automatic washers and dryers of which we are the largest manufacturer in Canada and some time later this year will be shipping our millionth unit.

Entry into the manufacture and sale of refrigerators next year will immediately put your Company on a higher sales plateau and from there should enable us to maintain a satisfactory sales growth and proportionately reduce the burden of general and administrative expenses in our product costs. In the early years of operation of our new plant at Saltfleet, during the build-up of refrigerator sales, we expect a reduction in the rate of overall profitability on total sales but at least to maintain our present level of consumer products' profit before tax.

Provided of course the current slowdown in consumer buying is temporary and Canada is not on the verge of a recession. We do not think it is. Rather that the slowdown is due to an all round tightening of credit last year the effects of which became acute in the latter part of the year, consumer products sales being one of the first casualties, along with a consequent reduction in housing starts. In addition, there is little doubt that in recent years purchases of home appliances have been relatively abnormally high. We therefore do not expect the same increase in sales this year over 1966 as we had last year over 1965.

That is one problem facing our industry. Another is continually declining appliance selling prices. A recent series of charts on price trends in Canada, published by the National Industrial Conference Board, shows that from 1956 to 1966 the average price of household appliances has declined by 20% in the face of rising prices in almost all other goods, supplies and services. To counter this trend a considerable amount of our time and much ingenuity is spent in

cost reduction exercises, but always maintaining our high standards of quality or even improving on these wherever possible.

Another disturbing feature is the talk we hear increasingly of the advantages which would accrue to Canada by a move towards international free trade.

Free trade based on the abolition of customs tariffs is a very nice theory for the lecture room. Unfortunately it presupposes Utopian conditions which just do not and will not ever exist in the world of reality. It is difficult to see how any free trade system could effectively cope with barriers to international trade, other than customs tariffs, which are sometimes insurmountable. These can range from a policy of selective import trade control to a plain refusal to buy foreign products from nationalistic considerations or federal legislation. Selective import trade control has been used in the past 20 years as a powerful tool to foster the build-up of a balanced secondary industry, by a number of developing countries who logically, as a result of deprivations during the last war, recognized the dangers inherent in basing their economy exclusively on primary product and its exports.

We are told we must export more but let us take a look at some of the handicaps in the way of this desirable end. Many of our raw materials procured in Canada cost more than in the United States. Our rail freight rates to the West Coast are appreciably higher than they are in the United States where, of course, there is much more competition in this area. And as you all know Canadian labour rates are now amongst the highest in the world having risen steeply in the past twelve months.

Against this we are told that a move towards free trade will enable us to compete better in overseas markets, increase our production runs and so reduce our costs. Little or no thought seems to be given to the highly industrialized countries of Western Europe, with their appreciably cheaper labour and longer production runs, just waiting for the same opportunity – in reverse. Countries which in addition may have hidden export incentives, none of which we have in Canada.

I should say immediately that your Company would be among the last to seek tariff protection to hide shortcomings such as inefficient methods of production. We do however urge our government to move with caution in the area I have mentioned, to permit secondary industry to keep healthy and thriving and continuing to make significant contributions to Canadian employment and the general economy of Canada.

On the positive side John Inglis has many factors working in its favour. We have valuable associations with our licensors, Whirlpool Corporation, Sundstrand Corporation and A. O. Smith Corporation, with their vast research and development resources. We have the substantial business of our brand name customers, Simpsons-Sears and R.C.A. Victor. With all these associates we have most excellent relations.

We also have our own countrywide Inglis distributor and dealer organization supported by our Inglis factory service organization, second to none, with branches located in all principal cities across Canada and constantly being extended to smaller communities every year.

And finally we have the best products money can buy.